

WHONNOCK INDUSTRIES LIMITED / ANNUAL REPORT 1972

AR16

COVER PHOTO
View from inside of twin band saw control room. Operator automatically adjusts cut thickness and watches flow of logs to gang edger on T.V. monitor.

WHONNOCK INDUSTRIES LIMITED

HEAD OFFICE and REGISTERED OFFICE
655 - Two Bentall Centre, Vancouver 1, B.C.

Officers

R. A. C. McColl, *Chairman*
C. A. Johnson, *President*
H. Kneteman, *Executive Vice-President and Secretary-Treasurer*
T. Evans Lougheed, *Vice-President*

Directors

C. B. Delbridge, Vancouver, B.C.
Arthur Holding, Chase, B.C.
C. A. Johnson, Vancouver, B.C.
H. Kneteman, Vancouver, B.C.
T. Evans Lougheed, Penticton, B.C.
R. A. C. McColl, Vancouver, B.C.

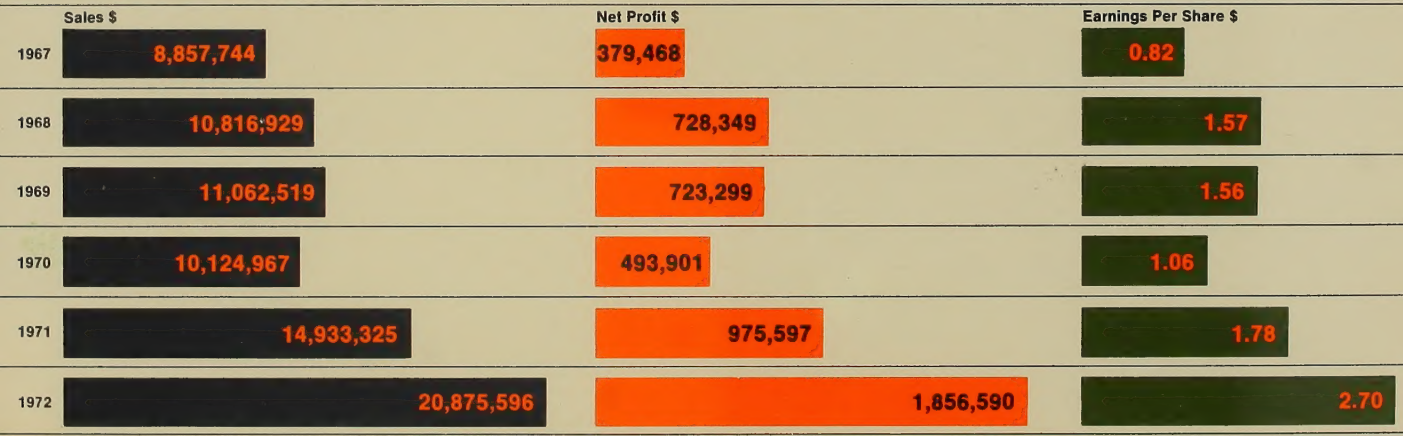
Auditors

Touche Ross & Co., Vancouver, B.C.

Transfer Agent

The Canada Trust Company, Vancouver, B.C.

FINANCIAL REVIEW



The Annual General Meeting of the Company will be held on March 23, 1973 at 10:00 a.m. in the Tudor Room, Hotel Georgia, 801 West Georgia St., Vancouver, B.C.

PRESIDENT'S REPORT

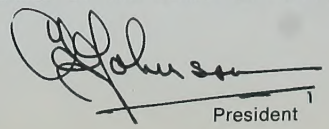
The year 1972 saw the completion of a very successful year for your company. The Company's Consolidated Sales amounted to $20,875,596 as compared to $14,933,325 in 1971 and the Consolidated Net Income was $1,856,590 or $2.70 per share as compared to $975,597 or $1.78 per share in 1971. The Coastal Operations suffered mill closures in June and July due to flooding conditions of the Fraser River and a strike by the members of the International Woodworkers of America. The new modern high speed smallwood mill was completed in September, and commenced production on a two shift basis in the latter part of October. This mill will be capable of increasing the production of the coastal operations by 30,000,000 board feet of lumber in 1973.

The Interior Operations completed a very successful year reaching a record production of 67,056,000 f.b.m. The new cedar facilities were completed in September and have increased the cedar production capacity along with better utilization of cedar logs.

Weldco achieved a record production and sales year in 1972. Construction has commenced on 10,000 sq. ft. of additional plant capacity thus increasing by 75% the production area.

The market for lumber, shakes and shingles remains strong and the consumption of softwood lumber in 1973 is not expected to decline significantly from the 1972 record use. The Directors, Officers and Management of your Company hold a most optimistic view for the 1973 year.

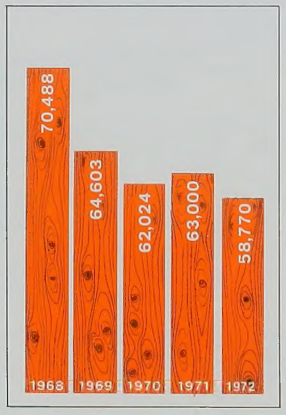
ON BEHALF OF THE BOARD OF DIRECTORS



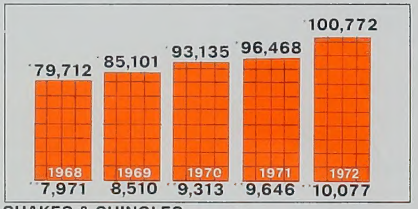
President

COASTAL OPERATIONS

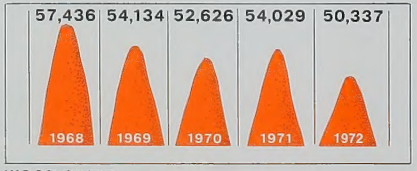
FIVE YEAR PRODUCTION FIGURES



LUMBER *in 1,000 board feet*



SHAKES & SHINGLES *in squares* in 1,000 board feet***



WOOD CHIPS *in units*

Unit equals 200 cubic feet of green wood chips.

The year 1972 for the Coastal Operations at Whonnock and Stave Lake did not come up to expectations. Production decreased from 63,000,000 f.b.m. in 1971 to 58,770,000 f.b.m. in 1972 caused by a mill shutdown for a period of six weeks due to the flooding of the Fraser River and a strike by The International Woodworkers of America. The production of shakes and shingles continues to improve as a result of increased efficiency. The market for this product remains strong.

Construction of the new smallwood mill commenced in April, 1972 and was completed in September, 1972. Automation is the key-note of this new mill with various phases of the operation controlled by seven electric eye units and two closed circuit television monitors. This mill reached 90% of its production capacity within three months of startup.

Management is continually striving to increase production in both the new smallwood mill and the large 40′ export mill.

The outlook for 1973 in the Coastal Operation is favourable with production expected to increase to a projected 90-100 million f.b.m. giving an increase of approximately 60% over 1972. The export market has strengthened considerably with the increased demands from Japan, United Kingdom and Western Europe markets.

THE NEW SMALLWOOD MILL





Logs start into mill from the dry land deck and side lift from the Fraser River.



Ring barker automatically adjusts to log diameter.



De-barked logs on conveyor prior to being put through twin band saw. Control Room is at top left.



Automatic controls for twin cut-off saws and ring barker with TV viewing of interior of mill.



Twin cut-off saws at 16' intervals.

Twin band saw makes initial cut in log. Operation is from Control console.





Close up view of twin band saw making first cut.



Automatic gang edger saws cants into lumber.

Cant stabilizer controls logs on way to automatic gang edger.





12 saws at 2' intervals trim lumber to final lengths.





(Top left) Chip edger processes slabs from twin band saw and gang edger.
(Top right) Automatic controls on chip edger determines width and thickness.
(Left) Green chain sorting of lumber into sizes prior to shipping to planing mill.





Chip screen sorts out oversize chips.

Sawdust and shavings formerly burnt are stored in special bins for use by agricultural producers.









Complete maintenance facilities shows
(Top)
Automatic circular saw blade grinder
(middle)
Setting teeth on automatic band saw sharpener
(Bottom)
Saw storage and maintenance area.



Twin band ready for new saw blade to be lowered from maintenance loft.



Start of construction on smallwood mill April, 1972.

INTERIOR

The production of the two sawmills reached 67,056,000 board feet in 1972 exceeding our projected production by 2,000,000 board feet. The Interior Operations lost three weeks production during 1972 when the Bee-Hive Burner was destroyed by hurricane force winds.

The year 1972 saw the completion of our new cedar facilities. Management is extremely satisfied with the two months production reflected in 1972 which established that these new additions to the Interior Operations have increased not only the utilization of cedar logs but also the cedar production capacity by 50%.

Management, being continually aware of environmental considerations, has completed the construction of equipment capable of producing hog fuel. Your Company is now embarking on the final phase of this program so that total utilization of waste products will be achieved and the waste product burner shut down.

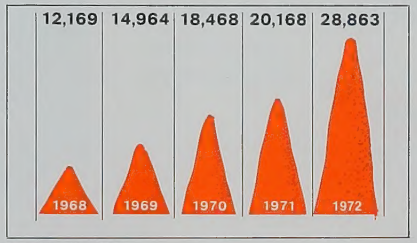
The United States market for lumber continues to be very strong and the outlook for 1973 is favourable.

OPERATIONS



A most unique piece of sawmill equipment is the new Rosser Head debarker installed at the Interior Operation. It handles cedar logs of any size. Modified infeed and out-feed enables slabs to be processed and a new shorter head design is used on knotty logs.

FIVE YEAR PRODUCTION FIGURES



WOOD CHIPS *in units*

Unit Equals 200 Cubic Ft. of Bone Dry Chips



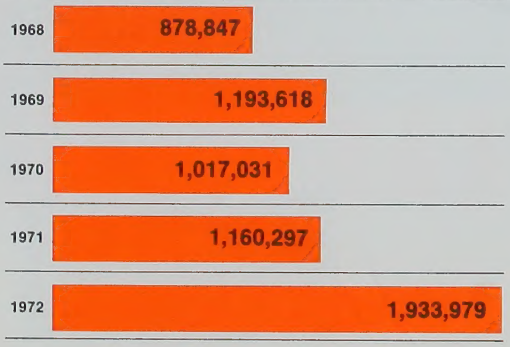
LUMBER *in 1,000 board feet*

WELDCO

The manufacturing division has completed a very successful year. Sales for 1972 amounted to $1,933,979 compared to $1,160,297 in 1971, an increase of $773,682 (67%) for the year.

With increased sales and production, management decided to enlarge the plant capacity by 10,000 sq. ft. which will improve production efficiency and enable this division to further increase production volume. The plant addition is expected to be completed in April, 1973.

FIVE YEAR SALES $









AUDITORS' REPORT

The Shareholders
Whonnock Industries Limited

We have examined the consolidated balance sheet of Whonnock Industries Limited as at November 30, 1972 and the consolidated statements of income and expense, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at November 30, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE ROSS & CO.
Chartered Accountants.

Vancouver, B.C.
January 16, 1973.

WHONNOCK INDUSTRIES LIMITED

CONSOLIDATED BALANCE SHEET

as at November 30, 1972

ASSETS

	1972	1971
Current		
Cash	$ 293,132	$ 194,302
Term bank deposits	500,000	815,000
Trade and other accounts receivable	1,730,827	1,179,604
Inventories — at lower of cost and net realizable value	6,171,445	3,222,069
Prepaid expenses	58,428	15,523
	8,753,832	5,426,498
Investments — at cost	189,257	200,425
Fixed		
Property, plant and equipment — at cost — Note 1	8,494,054	6,192,040
Less: Accumulated depreciation — Note 2	3,655,240	3,423,944
	4,838,814	2,768,096
Timber and logging roads		
Timber — at cost	1,335,046	1,335,046
Less: Accumulated depletion — Note 2	414,187	341,328
	920,859	993,718
Logging roads at cost less amortization — Note 2	773,280	582,140
	1,694,139	1,575,858
Other		
Timber sale deposits	123,974	100,290
Excess of cost of shares over net book value at acquisition less amortization — Note 1	3,742,966	3,814,556
	3,866,940	3,914,846
	$19,342,982	$13,885,723

On behalf of the Board:

C. A. JOHNSON, Director
R. A. C. McCOLL, Director

LIABILITIES

Current	1972	1971
Due to the bank — secured	$ 1,675,534	$ 507,000
Accounts payable and accrued liabilities	2,654,496	1,642,834
Income and logging taxes payable	822,920	477,023
Current portion of long-term debt — Note 3	287,700	352,468
Contribution payable to employees' deferred profit sharing plan	282,061	294,279
Class A common share dividend payable	—	24,691
5% Cumulative redeemable first preference share dividend payable	66,164	—
	5,788,875	3,298,295
Long-term debt, less current portion above — Note 3	2,589,217	3,174,648
Deferred income taxes	717,764	304,517
	3,306,981	3,479,165

SHAREHOLDERS' EQUITY

Share capital — Note 4:		
Authorized		
3,000,000 5% cumulative redeemable first preference shares of no par value		
1,535,998 Class A common shares of no par value		
464,002 Class B convertible common shares of no par value		
Issued and fully paid		
— 5% cumulative redeemable first preference shares (1971—3,000,000)	—	3,000,000
494,432 Class A common shares (1971—132,342)		
324,210 Class B convertible comomn shares (1971—331,660)		
818,642	5,374,373	640,171
	5,374,373	3,640,171
Retained earnings	4,872,753	3,468,092
	10,247,126	7,108,263
	$19,342,982	$13,885,723

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the Year Ended November 30, 1972

	1972	1971
Balance at beginning of year	$ 3,468,092	$ 2,588,129
Add: Net income for the year	1,856,590	975,597
	5,324,682	3,563,726
Less: Class A common share dividends	235,765	95,634
5% cumulative redeemable first preference share dividends	216,164	—
	451,929	95,634
Balance at end of year	$ 4,872,753	$ 3,468,092

CONSOLIDATED STATEMENT OF INCOME AND EXPENSE

For the Year Ended November 30, 1972

	1972	1971
Sales and other operating revenue	$20,875,596	$14,933,325
Production, selling and administrative expense	15,783,874	11,911,832
Remuneration of directors and senior officers	208,982	145,910
Depreciation, depletion and amortization —Note 2	617,635	374,944
	16,610,491	12,432,686
Operating income	4,265,105	2,500,639
Dividends and interest from investments	45,667	28,214
Gain on disposal of fixed assets	6,872	21,353
	4,317,644	2,550,206
Interest on long-term debt	233,608	136,283
Income before contribution to employees' deferred profit sharing plan and income and logging taxes	4,084,036	2,413,923
Contribution to employees' deferred profit sharing plan	282,060	294,279
Income before income and logging taxes	3,801,976	2,119,644
Income and logging taxes:		
Current	1,501,792	963,407
Deferred	443,594	180,640
	1,945,386	1,144,047
Net income for the year	$ 1,856,590	$ 975,597
Net income per common share—Note 5		



WHONNOCK INDUSTRIES LIMITED

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the Year Ended November 30, 1972

	1972	1971
Source of funds		
Net income for the year	$ 1,856,590	$ 975,597
Add: Charges against income not requiring an outlay of funds:		
Depreciation, amortization and depletion	617,635	374,944
Deferred taxes	443,594	180,640
Investment written off	1,500	—
Less: Gain on disposal of fixed assets	(6,978)	(21,353)
	2,912,341	1,509,828
Proceeds from:		
Disposal of fixed assets	32,677	61,542
Disposal of timber sale deposits	—	1,110
Increases in lon-term debt excluding that incurred in acquisition of subsidiaries	—	29,798
Issue of Class A common shares—Note 4	4,734,202	—
Disposal of investments	10,100	—
Working capital of subsidiaries at date of acquisition	—	1,728,910
	7,689,320	3,331,188
Application of funds		
Purchase of fixed assets, timber sale deposits and investments	2,476,923	1,246,144
Construction of logging roads	271,728	230,868
Long-term debt repaid or currently maturing	585,431	808,528
Dividends on Class A common shares	235,765	95,634
Dividends on 5% cumulative redeemable first preference shares	216,164	—
Redemption of 5% cumulative redeemable first preference shares—Note 4	3,000,000	—
Reallocation of deferred taxes to current taxes payable	41,155	—
Adjustment of excess cost of shares over net book value resulting from pre-acquisition logging tax assessment of subsidiary	25,400	—
	6,852,566	2,381,174
Increase in working capital	836,754	950,014
Working capital at beginning of year	2,128,203	1,178,189
Working capital at end of year	$ 2,964,957	$ 2,128,203

WHONNOCK INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at November 30, 1972

Note 1—Principles of Consolidation

The consolidated financial statements of Whonnock Industries Limited as at November 30, 1972, consolidate the accounts of all its subsidiaries, all of which are wholly-owned. The comparative figures include the operating results of Weldco Limited from February 28, 1971, and the Holding Group from March 31, 1971.

The excess cost of shares in subsidiaries over their net book values at the dates of acquisition have been reported as follows:

(i) $426,844 was added to the cost of property, plant and equipment as it was deemed to be attributable thereto. Amortization of the excess purchase price attributable to plant and equipment is provided in the depreciation policy.

(ii) $3,904,616 was shown as excess purchase price and is being amortized on a straight line basis over forty years, and accordingingly a charge of $96,990 (1971—$64,660) has been provided in the operating results.

Note 2—Depreciation, Amortization and Depletion

Depreciation and amortization of plant, equipment and roads is provided on the straight-line method based on the estimated remaining useful lives. Depletion is computed on the basis of timber cut.

Note 3—Long-Term Debt

	1972	1971
Term bank loan 1½% above prime bank rates—secured by a demand debenture and assets pledged as security under Section 88 of the Bank Act—repayable in annual instalments of $200,000 ($500,000 was repaid in 1972)	$ 500,000	$ 1,000,000
Timber purchase agreements at prime bank rates—current portion $4,700 with balance repayable in annual instalments of $6,967 including interest	44,917	112,116
5% promissory note issued on acquisition of Weldco Limited—repayable in annual instalments of $83,000	332,000	415,000
8% Series A bonds—secured by a first floating charge on the assets of Whonnock Lumber Company Limited—maturing in 1986	2,000,000	2,000,000
	2,876,917	3,527,116
Less: Current portion	287,700	352,468
	$ 2,589,217	$ 3,174,648

Attached to the Series A bonds are Series A warrants of Whonnock Industries Limited which under certain circumstances entitle the bond holders to call for the redemption in whole or in part of their holdings provided that the proceeds from such redemption will be used by the bondholder to purchase Whonnock Industries Limited Class A common shares.

Note 4—Share Capital

During the year the following changes were made to the company's issued share capital:

a) 350,000 Class A common shares with no par value were issued under an underwriting agreement with A. E. Ames & Co. Limited dated April 19, 1972 for a net cash consideration of $4,692,442.

b) 3,000,000 5% cumulative redeemable first preference shares were redeemed for $3,000,000 out of the proceeds of the issue of Class A common shares. Under the terms of the Articles of Association these shares are not available for re-issue. The cumulative dividend has been accrued up to the date of redemption—May 10, 1972.

c) 4,640 Class A common shares were issued at $9 per share pursuant to employee stock options.

As at November 30, 1972 the company had 100,000 Series A warrants outstanding for Class A common shares as well as the following share options:

Class A Common Shares	Class B Common Shares	Price Per Share	Exercisable in Equal Amounts Over the Years
6,560	12,000	$ 9	1973—1976
2,300	20,000	$15	1973—1977

The above potential additions to issued Class A and Class B common shares have been incorporated in the calculation of fully diluted earnings per share as described in Note 5.

The Class A common shares (carrying one vote per share) are preferred as to a non-cumulative dividend of 75 cents per annum before dividends are paid to Class B shares. Any further dividends shall be declared in equal amounts on all common shares.

The Class B common shares (carrying ten votes per share) are convertible into Class A common shares at any time at the option of the holder, on the basis of one Class A common share for one Class B common share. Subsequent to the release of the 1971 annual accounts of the company, it was discovered that a conversion of 100 Class B common shares on December 1, 1971 was confirmed by the transfer agent as an exchange prior to December 1, 1971. During the year 7,450 Class B common shares had been converted into Class A common shares. 324,210 Class A common shares are reserved for the conversion of Class B common shares.

During the year, the company was notified by the Registrar of Companies for British Columbia that the conversion of Class B common shares to Class A common shares did not automatically adjust the respective authorized share capital as originally approved by the Registrar and as reflected in the 1971 financial statements. Consequently, the authorized share capital shown in the balance sheet has been adjusted to reflect the position prior to any conversions.

Note 5—Net Income Per Common Share

a) Net income per common share—$2.70 (1971—$1.78)

Net income per common share reflects the weighted annual average of the Class A shares issued during the period and the issued and outstanding Class A and B common shares as at December 1, 1971, divided into the consolidated net income after deduction of the 5% cumulative preferred share dividend to May 10, 1972.

b) Fully diluted net income per common share—$2.36 (1971—$1.50)

Fully diluted net income per comon share shows the effect of the maximum possible dilution on net income which would result if all warrants attached to the 8% Series A bonds (100,000) and if all outstanding share options (40,860) had been exercised at December 1, 1971.

Note 6—Subsequent Event

Subsequent to November 30, 1972 the company declared an 18.75 cent dividend for the first quarter of 1973 fiscal year to Class A common shareholders of record as at February 1, 1973 and payable on February 28, 1973.



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